



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

October 2, 2017

Ms. M. Lynn Jarvis, Chief Clerk
North Carolina Utilities Commission
Mail Service Center 4325
Raleigh, North Carolina 27699-4300

Re: Docket No. W-354, Sub 356 - Petition for General Rate Increase
Public Staff's Late-Filed Exhibits of Calvin C. Craig, III

Dear Ms. Jarvis:

During the September 20, 2017, evidentiary hearing in the above-captioned docket, Commissioner Clodfelter asked Public Staff witness Calvin Craig questions regarding the current debt rating on Utilities Inc.'s long-term debt; the current yields on long-term Treasury bonds; the risk premium for commercial lenders over long-term Treasuries for the water companies; debt rating on long-term debt of the peer group companies and the average cost of debt for those companies; and the average capital structure for the peer group companies.

Pursuant to the Commission's request, please find enclosed Mr. Craig's Late-Filed Exhibit 1 – Water Utility Peer Group S&P Bond Ratings; Late-Filed Exhibit 2 – Water Utility Peer Group SEC Filed Capital Structures; and Late-Filed Exhibit 3 – Water Utility Debt Premiums.

The Affidavit of Richard A. Linneman, Financial Planning and Analysis Manager for Carolina Water Service, Inc. of North Carolina (CWSNC), filed on September 26, 2017, provided responses to the following Commissioner Clodfelter questions:

1. current debt rating on Utilities, Inc.'s long term debt

Executive Director
(919) 733-2435

Communications
(919) 733-2810

Economic Research
(919) 733-2902

Legal
(919) 733-6110

Transportation
(919) 733-7766

Accounting
(919) 733-4279

Consumer Services
(919) 733-9277

Electric
(919) 733-2267

Natural Gas
(919) 733-4326

Water
(919) 733-5610

Ms. M. Lynn Jarvis
October 2, 2017
Page Two

2. a comparison of the average cost of debt of Utilities, Inc. to the average cost of debt for Public Staff witness Craig's proxy group of water companies.

3. current U.S. Treasury bond yields.

The Public Staff agrees with Mr. Linneman's responses to these three questions.

The Public Staff requests that the Commission enter the pre-filed testimony of Public Staff witness Calvin Craig and the attached late-filed exhibits into evidence in this docket.

By copy of this letter, I am forwarding a copy to all parties of record by electronic delivery.

Sincerely yours,

Electronically submitted
/s/ Gina C. Holt
Staff Attorney
gina.holt@psncuc.nc.gov

GCH/cla

Enclosures

Water Utility Peer Group S&P Bond Ratings

Company Name	Bond Rating ¹
1 American States Water	A+
2 American Water Works	A
3 Aqua America	A+
4 California Water	A+
5 Connecticut Water	A
6 Middlesex Water	A
7 SJW Corp.	A
8 York Water	A-
Average	

Utilities Inc. Not Rated

Source:

¹ S&P Global Ratings, September 23, 2017, Issue Credit Rating.

Water Utility Peer Group SEC Filed Capital Structures

Company Name	Common Equity	Long-Term Debt
1 American States Water	61.5%	38.5%
2 American Water Works	45.9%	54.1%
3 Aqua America	47.1%	52.9%
4 California Water	54.3%	45.7%
5 Connecticut Water	55.3%	44.7%
6 Middlesex Water	61.2%	38.8%
7 SJW Corp.	50.3%	49.7%
8 York Water	56.6%	43.4%
Average	54.0%	46.0%
Proposed Stipulation	52.0%	48.0%

Source:
SEC 10Q Filings July-August, 2017.

Note: Common equity includes preferred stock and long-term debt includes current maturities. According to Regulatory Research Associates, the approved common equity ratio for ratemaking, as of May 31, 2017 is 47.53%.

Water Utility Debt Premiums

Utilities Inc. Subsidiaries			Filing	10-Year Treasury	Debt	
Water Utility	Docket # ¹	Date	Bond ²	Cost	Premium	
1 Carolina Water Service	W-354, Sub 324	5/28/2010	3.31%	6.60%	3.29%	
2 Carolina Water Service	W-354, Sub 336	5/29/2013	2.13%	6.60%	4.47%	
3 CWS Systems	W-778, Sub 89	12/3/2012	1.63%	6.60%	4.97%	
4 Carolina Water Service	W-354, Sub 344	2/25/2015	1.96%	6.60%	4.64%	
5 Elk River Utilities	W-1058 Sub 7	2/26/2015	2.33%	6.58%	4.25%	
6 CWS Systems	W-778, Sub 91	6/29/2015	2.40%	6.60%	4.20%	
7 Carolina Water Service	W-354, Sub 356	3/31/2017	2.48%	5.93%	3.45%	
Average			2.32%	6.50%	4.18%	

			Filing	10-Year Treasury	Debt	
Water Utility	Docket # ¹	Date	Bond ²	Cost	Premium	
1 Aqua North Carolina	W-218, Sub 319	11/19/2010	2.88%	5.56%	2.68%	
2 Pluris	W-1282, Sub 8	10/31/2011	2.17%	6.12%	3.95%	
3 Aqua North Carolina	W-218, Sub 363	7/2/2013	2.48%	5.29%	2.81%	
4 Sugarloaf Utility	W-1154, Sub 7	6/30/2014	2.53%	6.17%	3.64%	
Average			2.52%	5.79%	3.15%	

CWS Debt Premium vs. Other Water Companies 1.03%

September 19, 2017 10 Year Treasury Bond 2.24%

Sources:

¹ NCUC filings.² Federal Reserve St.Louis, FRED Economic Data.